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Corporate social environmental responsibility disclosure of Indonesian public listed companies

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ABSTRACT This study investigates the extent of corporate social environmental responsibility disclosure (CSERD). A hundred public listed companies based on the highest market capitalization for period of 2012. The result of this study suggests that the narrative type is the most used among Indonesia companies to communicating their CSER activities. This study also finds that there sensitive industry disclosed more narrative and quantitative forms than non-sensitive industry. The implication of the findings support previous studies suggesting that industry behaviour in disclose their CSER activity is affected by the institution where they located. The presence of law and regulation is one of factor that influences the extent of disclosure made by corporations.

Keywords CSER disclosure, industry, institutional theory, narrative, Indonesia

Introduction

There has been a dramatic increase in corporate social environmental responsibility disclosure (CSERD) in Asia Pacific over the last two years, almost 71% of companies based in Asia Pacific now publish CSR report (KPMG, 2013, p.10). This increase has occurred both in voluntary and mandatory ways. Nevertheless, drivers for disclosing such information is still vary (Islam and Deegan, 2008; Liu and Anbumozhi, 2009; Momin and Parker, 2013), in which legitimacy and accountability motivations are the most explanations for why companies engage in CSERD (Bebbington *et al.*, 2009).

Corporate social environmental responsibility disclosures (CSERD) is the process of measuring and communicating information concerning the impact of a firm toward community, customers, employee welfare, product safety, pollution and the environment (Alnajjar, 2000), while Guthrie and Matthews (1985) define CSERD as the convention of financial and non-financial information that relates to an organization's interaction with its physical and social environment, which is disclosed in corporate annual reports or separate social reports. Evidence suggests that government can play a significant role in stimulating CSERD (Pedersen *et al.*, 2013). Institutional pressure from government such mandatory requirements disclosure in CSERD can increase level of information reported by companies (Frost, 2007; Liu *et al.*, 2010).

In line with the international trend in CSERD and to encourage public listed companies to embrace greater transparency and accountability, in Indonesia, the government has made a mandatory requirement in 2007, via Corporate Law No. 40 (UU No. 40 Tahun 2007) to all publicly listed companies to disclose their corporate social environmental responsibility (CSER) activities in their annual reports beginning with the financial year ending 31 December 2008. Article 74 of Corporate Law 40/2007 requires companies conducting their business activities in

and or related to the field of natural resources to implement CSER. This mandatory requirement is called Partnership and Environment Development Program or Program Kemitraan dan Bina Lingkungan (hereafter PKBL). Although the government has set regulations related to PKBL disclosure, but how obedient the companies of this legislation still needs to be investigated. Little previous studies (specifically in Indonesia) in CSERD areas have investigated whether recent regulation such mandatory reporting will successfully persuade companies to produce CSER information as is hoped by the regulators (Othman *et al.*, 2011). Particularly, in Indonesia, so far it is not unclear how and to what extent mandatory PKBL disclosure can stimulate companies for enhancing PKBL performance. This study investigates the extent of corporate social environmental responsibility disclosure (CSERD) of Indonesia public listed companies.

Literature review

Indonesia context

Corporate social environmental responsibility disclosure (CSERD) might be affected by institutional condition such as regulations or laws released by government, emerging the self-regulation, the presence of non-governmental organization, the involvement in trade or employer associations, and their involvement in institutionalized dialogue with unions, employees, community groups, investors, and other stakeholders. Corporations will likely act in social responsible way if there are regulations and good monitoring by the government to ensure the enforcement of it. The government also should have the capacity to engage the society in order to monitor the corporation's behavior.

There are many laws and regulations controlling CSER/PKBL activity in Indonesia. The first one is the 2007 Indonesian Corporate Law No. 40. The Article 1 Number 3 of the Law states that social and environmental responsibility is company's commitment to participate in sustainable economic development, in order to increase the quality of life and environment, which will be valuable for the company itself, the local community, and the society in general. Further, under Article 74 Number 1 stated that the company having its business activities in the field of and/or related to natural resources, shall be obliged to perform its social and environmental responsibility.

The second is the 2007 Indonesian Investment Law No. 25. Article 15 stated that investor is required to implement the company's social liability. The company's social liability mentioned in the Article means that the responsibility of every company is to create a relationship which harmonious, balanced, and appropriate to the surrounding community's environment, values, norms, and cultures. It is also stated in Article 16, that investor responsible to preserve the environment. The other regulation is the 2009 Indonesian Environmental Protection and Management Law No. 32. Under the Article 68 is stated that everybody who undertakes the business and/or activity shall be obliged to:

- a. Provide information related to environmental protection and management truthfully, transparently, and punctually;
- b. Preserve the sustainability of environmental functions; and
- c. Abide by the provision on the quality standard of environment and/or standard criteria for environmental damage.

Past studies

Previous studies on corporate social environmental responsibility disclosure (CSERD) have been conducted in Indonesia. Most of these studies suggested that the extent of CSERD is still low and the nature of disclosure is mostly positive and descriptive (see, for example, Gunawan, 2007; Mirfazli, 2008b, 2008a; Waagstein, 2010; Hidayati, 2011; Oeyono *et al.*, 2011; Shauki, 2011). Gunawan (2007) suggests that the extent of CSERD is still low and motivations for disclosing are to build a positive image and to comply with stakeholders. Consistent with Gunawan (2007), Mirfazli (2008b) finds that the disclosure of Indonesia public listed companies still low. Further, his finding suggest that there is a difference extent of disclosure between low and high profile industry. Shauki (2011) CSERD can act as an important mechanism to be considered by company when they are making an investment decision.

Method

This study is conducted to provide an up-to-date portrait of Indonesia companies' corporate social environmental responsibility disclosure (CSRED) practices. Global Reporting Initiative (GRI) index version 3.1 is used to measure the extent of CSERD. The samples used in this study top 100 companies listed on Indonesia Stock Exchange (IDX) in 2012. There are many types of disclosure used by company to disclose the items on GRI Index, they are narrative, monetary, and quantitative (Alnajjar, 2000). Narrative type mainly discloses the items in form of sentences or paragraphs. The monetary type mentions the number in *rupiah* or *dollar* of an item is conducted by company. Then, quantitative type specify the information of items stated in number form, for example, the amount of waste, the percentage of employee, etc.

Table 1 present the sample. Based on Table 1 it can be seen that the depiction of amount of companies including in each industry. The highest amount is 21 companies which are categorized as trade, services, and investments. The lowest is miscellaneous industry which only 3 companies in this study including in that category.

Table 1. Number of companies based on sector of industry

Sector	No. of firms
Agriculture	4
Mining	13
Basic Industry & Chemicals	8
Miscellaneous Industry	3
Consumer Goods Industry	10
Property, Real Estate, Building & Construction	12
Infrastructure, Utilities, & Transportation	12
Finance	17
Trade, Services, & Investments	21
Total	100

Results

Descriptive statistics

A company will disclosed those 75 items in their annual report or sustainability report if it is fully disclosed. This study analyze in what type of disclosure those items are disclosed. There are three type of disclosure used as the measurement, such as monetary, quantitative and narrative

type. If a company used three types of disclosure to disclose each items, there will be 225 items (75 items x 3) disclosed in the different ways.

Table 2. Descriptive statistics of amount of disclosure (items)

	Monetary	Quantitative	Narrative
Total item disclosed	241	840	1872
Mean	2.41	8.4	18.72
Minimum	0	0	2
Maximum	12	35	74

Table 2 shows that the extent of narrative disclosure is high with average value 18.72. It means that on the average, a company disclosed 18 until 19 items of GRI 3.1 in narrative type. Meanwhile, the extents of CSERD in quantitative and monetary disclosure are 8.4 and 2.41. From the Table, amount of minimum disclosure made by a company in narrative type is 2 items. It explains that there is company which only disclosed two items in narrative form. Meanwhile, the maximum item disclosed by company in narrative type is 74 items, in quantitative type is 35, and in monetary type is 12.

Table 3 presents the amount of indicator disclosed for each category. Generally, from the Table above, the indicator most explain in three types of disclosure is Labor Practices and Decent Work (LPDW). Meanwhile, the indicator which is the lowest amount disclosed in the three types of disclosure is Human Rights (HR). In the narrative and quantitative types the top 3 indicator discussed in annual report report are LPDW, Environmental (EN), and Society (SO). However, in the monetary types, the top 3 indicators disclosed are LPDW, SO, and EN. It indicates that the items of society indicator are more disclosed in monetary term than the items of environmental indicator for Indonesia companies.

Table 3. Amount of indicator disclosed for each CSERD category

	EN	LPDW	HR	SO	PR	Total
Monetary	67	86	1	78	9	241
Quantitative	263	411	21	92	53	840
Narrative	546	589	150	321	266	1872

Note: EN = environmental; LPDW = labor practice & decent work; HR = human right; SO = society; PR = product responsibility

Table 4 provides the breakdown of the amount of disclosure type based on industry. There are nine groups of industry in Indonesia Stock Exchange (IDX) which is used in the table above. In monetary type, the industry which has the highest items disclosed is finance, and the lowest is agriculture. Meanwhile, in quantitative and narrative type, mining industry is the industry which has the highest disclosed items.

4. Amount of item disclosed for each sector of industry

Sector	Monetary	Quantitative	Narrative
Agriculture	9	21	70
Mining	42	178	412
Basic Industry & Chemicals	20	108	227
Miscellaneous Industry	16	40	61
Consumer Goods Industry	20	59	192
Property, Real Estate, Build & Cons	13	43	117
Infrastructure, Utilities, & Transportation	32	135	293
Finance	56	153	290
Trade, Services, & Investments	33	103	210
TOTAL	241	835	1872

Table 5 shows the amount of companies in each industry type which disclose their annual report in monetary, quantitative and narrative term. Generally, trade, services and investments type dominate in three type of disclosure. This type of industry contains the highest amount of company in each disclosure type. Meanwhile, miscellaneous industry becomes the industry which contains the lowest amount of companies in three type of disclosure. This industry only places three companies in monetary, quantitative, and narrative type.

Table 5. Amount of item disclosed for each company

No	Code	Sensitive Industries	Monetary	Quantitative	Narrative
1	ASII	Miscellaneous Industry	12	31	42
2	HMSP	Consumer Goods Industry	3	7	25
3	TLKM	Infrastructure, Utilities & Transportation	8	26	64
4	UNVR	Consumer Goods Industry	2	27	44
5	PGAS	Infrastructure, Utilities & Transportation	2	27	66
6	GGPM	Consumer Goods Industry	3	3	15
7	SMGR	Basic Industry and Chemicals	9	23	42
8	INTP	Basic Industry and Chemicals	1	22	68
9	UNTR	Trade, Services & Investment	4	22	30
10	CPIN	Basic Industry and Chemicals	3	4	6
11	KLBF	Consumer Goods Industry	4	10	28
12	INDF	Consumer Goods Industry	4	5	25
13	ADRO	Mining	3	11	27
14	EXCL	Infrastructure, Utilities & Transportation	4	10	15
15	ITMG	Mining	7	12	40
16	ICBP	Consumer Goods Industry	2	3	30
17	JSMR	Infrastructure, Utilities & Transportation	5	33	72
18	ISAT	Infrastructure, Utilities & Transportation	4	12	26

No	Code	Sensitive Industries	Monetary	Quantitative	Narrative
19	PTBA	Mining	6	23	40
20	AALI	Agriculture	2	8	20
21	BYAN	Mining	2	6	13
22	TBIG	Infrastructure, Utilities & Transportation	0	2	6
23	INCO	Mining	7	33	73
24	TOWR	Infrastructure, Utilities & Transportation	2	5	6
25	LPKR	Property, Real Estate, and Building Construction	0	5	8
26	SMCB	Basic Industry and Chemicals	1	35	56
27	AMRT	Trade, Services & Investment	0	5	5
28	SMAR	Agriculture	4	7	24
29	INVS	Infrastructure, Utilities & Transportation	1	2	5
30	SIMP	Agriculture	1	3	17
31	TSPC	Consumer Goods Industry	0	2	4
32	HRUM	Mining	0	2	11
33	AKRA	Trade, Services & Investment	1	4	14
34	LSIP	Agriculture	2	3	9
35	MLBI	Consumer Goods Industry	0	0	4
36	MYOR	Consumer Goods Industry	0	2	11
37	GIAA	Infrastructure, Utilities & Transportation	3	11	15
38	IMAS	Miscellaneous Industry	2	2	4
39	AUTO	Miscellaneous Industry	2	7	15
40	HERO	Trade, Services & Investment	2	4	8
41	ACES	Trade, Services & Investment	1	4	10
42	GEMS	Mining	1	7	13
43	SMRA	Property, Real Estate, and Build & Cons	1	2	6
44	TPIA	Basic Industry and Chemicals	1	5	16
45	JPFA	Basic Industry and Chemicals	1	4	8
46	BUMI	Mining	4	8	15
47	ANTM	Mining	6	30	74
48	CTRA	Property, Real Estate, and Build & Cons	0	3	14
49	ASRI	Property, Real Estate, and Build & Cons	0	2	4
50	TRAM	Infrastructure, Utilities & Transportation	1	2	6
51	MAPI	Trade, Services & Investment	1	2	5
52	PWON	Property, Real Estate, and Build & Cons	2	3	3
53	DSSA	Trade, Services & Investment	1	4	21
54	KRAS	Basic Industry and Chemicals	3	7	17
55	GTBO	Mining	0	1	8
56	WIKA	Property, Real Estate, and Build & Cons	3	10	28
57	RALS	Trade, Services & Investment	2	2	5
58	ERAA	Trade, Services & Investment	0	4	7
59	JRPT	Property, Real Estate, and Build & Cons	0	3	12
60	LPPF	Trade, Services & Investment	4	7	14
61	TINS	Mining	1	30	73

No	Code	Sensitive Industries	Monetary	Quantitative	Narrative
62	APLN	Property, Real Estate, and Build & Cons	1	2	15
63	INDY	Infrastructure, Utilities & Transportation	2	3	9
64	ROTI	Consumer Goods Industry	2	0	6
65	BIPI	Mining	3	2	7
66	HEXA	Trade, Services & Investment	3	5	10
67	BRAU	Mining	2	13	18
68	MPPA	Trade, Services & Investment	1	3	6
69	BEST	Property, Real Estate, and Build & Cons	1	2	5
70	FASW	Basic Industry and Chemicals	1	8	14
71	BKSL	Property, Real Estate, and Build & Cons	2	3	6
72	PLIN	Property, Real Estate, and Build & Cons	3	5	8
73	IBST	Infrastructure, Utilities & Transportation	0	2	3
74	DUTI	Property, Real Estate, and Build & Cons	0	3	8
No	Code	Non-Sensitive Industries	Monetary	Quantitative	Narrative
1	BBCA	Finance	3	9	17
2	BMRI	Finance	3	6	8
3	BBRI	Finance	4	11	21
4	BBNI	Finance	7	17	39
5	BDMN	Finance	5	16	33
6	MNCN	Trade, Services & Investment	1	2	3
7	BMTR	Trade, Services & Investment	1	1	2
8	BTPN	Finance	3	10	19
9	SMMA	Finance	1	1	4
10	BNGA	Finance	4	12	27
11	BNII	Finance	3	7	21
12	EMTK	Trade, Services & Investment	3	2	5
13	SMCA	Trade, Services & Investment	1	7	9
14	BHIT	Trade, Services & Investment	0	4	6
15	PNBN	Finance	6	9	14
16	BBTN	Finance	2	10	14
17	BNLI	Finance	2	12	18
18	NISP	Finance	6	9	18
19	MEGA	Finance	0	8	7
20	IDKM	Trade, Services & Investment	1	1	4
21	MAYA	Finance	1	2	6
22	BJBR	Finance	3	8	11
23	ADMF	Finance	3	6	13
24	VIVA	Trade, Services & Investment	1	2	6
25	ABMM	Trade, Services & Investment	1	7	21
26	BRMS	Trade, Services & Investment	4	11	19

Discussions

The result of this study shows that the extent of narrative disclosure is high and it becomes the mostly used type of disclosure by Indonesia companies. The findings are presented in the Table above indicate that most corporate items disclosed in annual report is in the narrative form. The propensity of Indonesia companies to use narrative type in disclosing each component in CSER activity may be to influence the stakeholder or public's mind. Compared with monetary and quantitative type, narrative is easier to make repetition information through many different sentences in many parts of annual report in order to smooth the company's reputation. The repetition way may be used by companies to report blow up their CSER activity in annual report. Companies also can boost their image using the narrative type because this kind of disclosure is susceptible to be manipulated by talented public relation officer (Alnajjar, 2000).

The finding also suggests that, mining industry have the highest disclosed items in their annual report. There are some reasons why Indonesia companies which are engaged in mining industry disclosed more their CSER activity than others. First, mining industry is the industry that has business core relating to natural resource, thus, they shall be obliged to do CSER activity as mandated by the 2007 Corporate Law No. 40. Further, mining industry based on Indonesia Stock Exchange (IDX) consists of sub sector such as coal mining, crude petroleum & natural gas production, metal and mineral mining, land/stone quarrying, and others. Based on the 2001 Law No. 22, Article 11 Clause (3) stated that upstream business activity (such petroleum and gas) which executed by business entity or permanent establishment on the basis of joint cooperation contracts with executing agency shall contain principal provisions, one of them is the development of surrounding communities and guarantee for right communal society. Then, in Article 40 Clause (5) stated that business entity or permanent establishments undertaking the petroleum and natural gas-related business activities shall be responsible for the development of the environmental and local communities. Those laws aforementioned motivate the companies included in mining industry to disclose those obliged CSR activity in order to inform the stakeholders that they obey the law and regulation.

Another possible explanation is that the presence of non-governmental and other independent organization that monitor the corporate behavior also be the mediator of the CSER activity and economic condition. The State Minister for The Environment of Indonesia (*Kementerian Lingkungan Hidup Indonesia/KLH*) collaborates with multi stakeholder held the supervision and give incentive or disincentive toward corporation or organization. That activity named as *Program Penilaian Peringkat Kinerja Perusahaan dalam Pengelolaan Lingkungan Hidup* (PROPER). PROPER is an award that given to companies or organization based on their compliance toward regulation of environment. There are five levels of PROPER award, from the highest to the lowest, gold, green, blue, red, and black. The level award received by companies can influence the public perception toward them. Thus, in order to boosted company's reputation, they disclose more complete and detail their effort to responsible against the environment.

Conclusions

This study is aimed to investigate the corporate social environmental responsibility disclosure (CSERD) practice of listed firms in Indonesia Stock Exchange (IDX). The result of this study

suggests that the extent of narrative type disclosure is high and it becomes the most used type of disclosure Indonesian listed companies to disclose their CSER activity. This study also find that the industry behavior in disclose their CSER activity is affected by the institution where they lies in. The presence of laws, regulation and independent organization is one of factor that influences the extent of disclosure made by corporations. This finding can be used as the reference by government and independent organization to encourage more corporations engaging in CSER activity. This finding may indicate that the Law Number 40/2007 fosters the sensitive industry to provide more CSER disclosure.

As with the most research, this study has several limitations. First, the period use in this study only a year because 2012 is the first time GRI 3.1 to be implemented and the data of year 2013 had not been released when I conduct the study. It may be suggested to use some period of year to investigate the trend of disclosure in Indonesia companies. Second, there is subjectivity from the researcher to assess the annual report using GRI 3.1. The subjectivity such as defining the information disclosed whether appropriate with GRI index or not.

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